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Scurry -

Rainbow

OIL LIMITED

1958

ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30

Scurry-Rainbow OIL LIMITED

539 - Eighth Avenue West
Calgary, Alberta

Directors

JOHN ELLIS, *Partner, Eastman Dillon, Union Securities & Co.* - New York, N.Y.
THOMAS H. JONES, *President & Chairman of the Board,*
Scurry-Rainbow Oil Limited - - - - - Cleveland, O.
PAUL S. KERR, *Vice-President & Secretary, The Clark Estates, Inc.,* New York, N.Y.
J. F. LANGSTON, *Managing Director, Denton-Spencer Co.* - - - Calgary, Alta.
L. C. MORRISROE, *Vice-President, Scurry-Rainbow Oil Limited* - - Calgary, Alta.
JOHN SCRIMGEOUR, *Partner, J. K. Rice, Jr. & Co.* - - - - - New York, N.Y.
WICKLIFFE SHREVE, *Partner, Hayden, Stone & Co.* - - - - - New York, N.Y.
FRANK E. TAPLIN, M.B.E., *Assistant to the President,*
Princeton University - - - - - Princeton, N.J.

Officers

THOMAS H. JONES *President and Chairman of the Board*
JOHN ELLIS *Chairman of the Executive Committee*
L. C. MORRISROE *Vice-President*
M. A. MORRISROE *Treasurer and Assistant Secretary*
S. F. SCHLOBOHM *Secretary*
J. H. ROBSON *Assistant Treasurer*

Registrar and Transfer Agents

PRUDENTIAL TRUST COMPANY LIMITED (CANADA)
Calgary and Toronto
CANADIAN BANK OF COMMERCE TRUST COMPANY OF NEW YORK
20 Exchange Place, New York, N.Y.

Stock Exchanges

AMERICAN STOCK EXCHANGE - TORONTO STOCK EXCHANGE
CALGARY STOCK EXCHANGE

Auditors

PRICE WATERHOUSE & CO.
Calgary, Alberta

Report of Directors

To the Shareholders:

Your Directors are pleased to present the Fifth Annual Report of the Company and its subsidiaries for the fiscal year ended September 30, 1958, along with the related financial statements.

The past year has been a successful one for Scurry-Rainbow Oil Limited despite the fact that the Canadian oil industry as a whole has been subject to severe competition resulting in curtailed production in Alberta and Saskatchewan where the Company is presently deriving the major portion of its revenue. However, intensive exploratory and development drilling on the Company's working interest and royalty holdings in Saskatchewan, Alberta and British Columbia during the past year has resulted in increased production and increased revenue. Consolidated gross income for 1958 amounted to \$2,176,343, an increase of 29% over the 1957 figure of \$1,682,256. The 1957 figure, however, reflects the income from properties acquired through the amalgamation with Canadian Pipelines & Petroleums Ltd. for only the last five months of that year. The marked increase in royalty income from \$208,579 to \$700,410 is significant since royalty oil is developed and produced at no cost to the Company. Net profit for the year after making full provisions for depreciation, depletion, abandoned properties and income taxes amounted to \$352,728, an increase of \$123,981 over last year. The net working capital at September 30, 1958, was \$1,082,788 as compared with \$1,196,929 a year ago.

Since the fiscal year end, a \$3,000,000 Canadian bank loan has been negotiated under the terms of which certain producing properties and shares of subsidiary companies will be pledged as collateral. The new loan will be repayable over a

four-year period. It is the intention of Management to substantially reduce the existing bank loans and the balance of the funds will be available for exploration, development and corporate purposes.

Scurry-Rainbow has maintained its strong land position and now holds interests in over 11,000,000 gross acres, an increase of over 1,000,000 acres during the past year which resulted in a large increase in net acres. A summary of the Company's acreage holdings appears later in this report and sets out the gross and net acreages in the various types of interests held at September 30, 1958.

Your Directors are pleased to report that the Company's estimated recoverable oil reserves have substantially increased to 14,004,000 barrels at September 30, 1958. The last reported figures, released in April 1957, were 5,930,000 barrels. In addition, the Company's gas reserves have been substantially increased during this same period with deliveries presently being made to the Westcoast Transmission Company Limited from Dawson Creek and other areas in British Columbia.

The following pages of this report contain a more detailed review of the Company's activities during the past year.

Once again it is with pleasure that the Board of Directors record their sincere appreciation for the loyal support and co-operation received from all members of the organization.

Management believes that the Company's position has been strengthened during the past year and confidently looks forward to continued progress and growth in the future.

On behalf of the Board of Directors.

THOMAS H. JONES,
President

Calgary, Alberta,
December 19, 1958.

SCURRY-RAINBOW OIL LIMITED AND SUBSIDIARY COMPANIES

OIL AND GAS WELLS

September 30, 1958

Scurry-Rainbow Oil Limited held an interest in 559 gross oil wells and 37 gross gas wells for a total of 596 wells at the fiscal year end. The Company's net interest in these wells by province is set forth below.

OIL WELLS

GAS WELLS

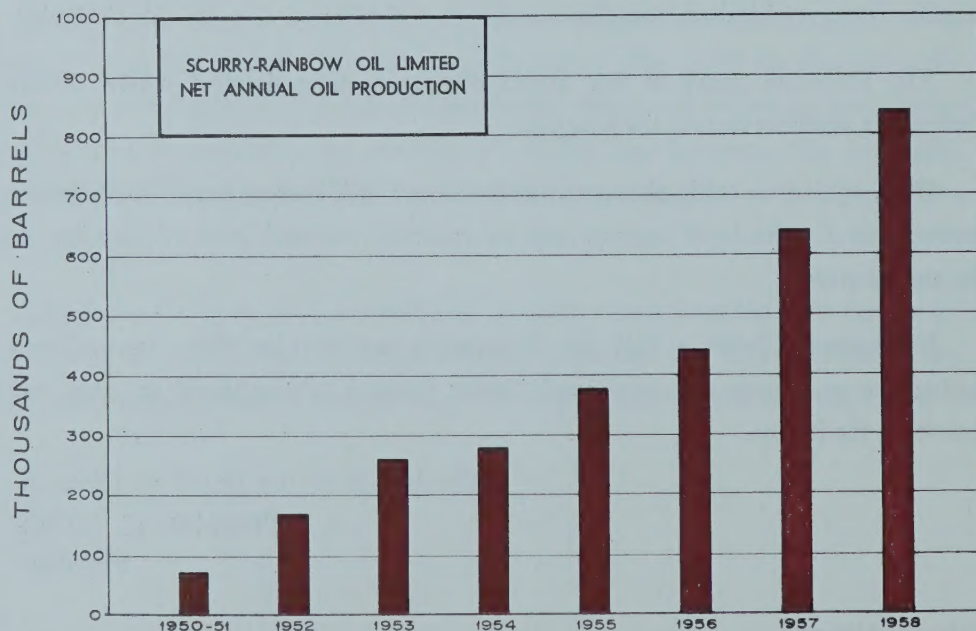
	<u>Working Interest</u>		<u>Royalty</u>		<u>Working Interest</u>		<u>Royalty</u>	
	Gross Wells	Net Wells	Gross Wells	Net Wells	Gross Wells	Net Wells	Gross Wells	Net Wells
Alberta	117	50.04	141	28.98	9	2.52	10	2.01
British Columbia	13	.65	—	—	13	2.34	5	.30
Saskatchewan	2	.46	241	130.28	—	—	—	—
Manitoba	17	12.12	28	.96	—	—	—	—
TOTAL	149	63.27	410	160.22	22	4.86	15	2.31

NOTE: (1) In addition, the Company has various royalty interests in 7 of the above working interest oil wells.

(2) A net working interest well represents the full working interest ownership in one well or the ownership of fractional working interests in several wells aggregating the equivalent of one well.

(3) A net royalty well represents the right to the equivalent of one-eighth of the production from one well, without deduction for development or operating expenses.

(4) Dually completed wells are counted as two wells.



Production from wells acquired through amalgamation with Canadian Pipelines & Petroleums Ltd. is included from May 1, 1957.

Oil Reserves

The consolidated oil reserves of Scurry-Rainbow Oil Limited and its subsidiary companies have shown a significant increase since the merger with Canadian Pipelines & Petroleum Ltd. in May, 1957. The reserves as at September 30, 1958, were estimated at 14,004,000 barrels of which 10,898,700 barrels are primary reserves and 3,105,300 barrels are secondary reserves. These figures are based upon an independent consulting firm's report, together with calculations made by the Company's own engineering department.

Development

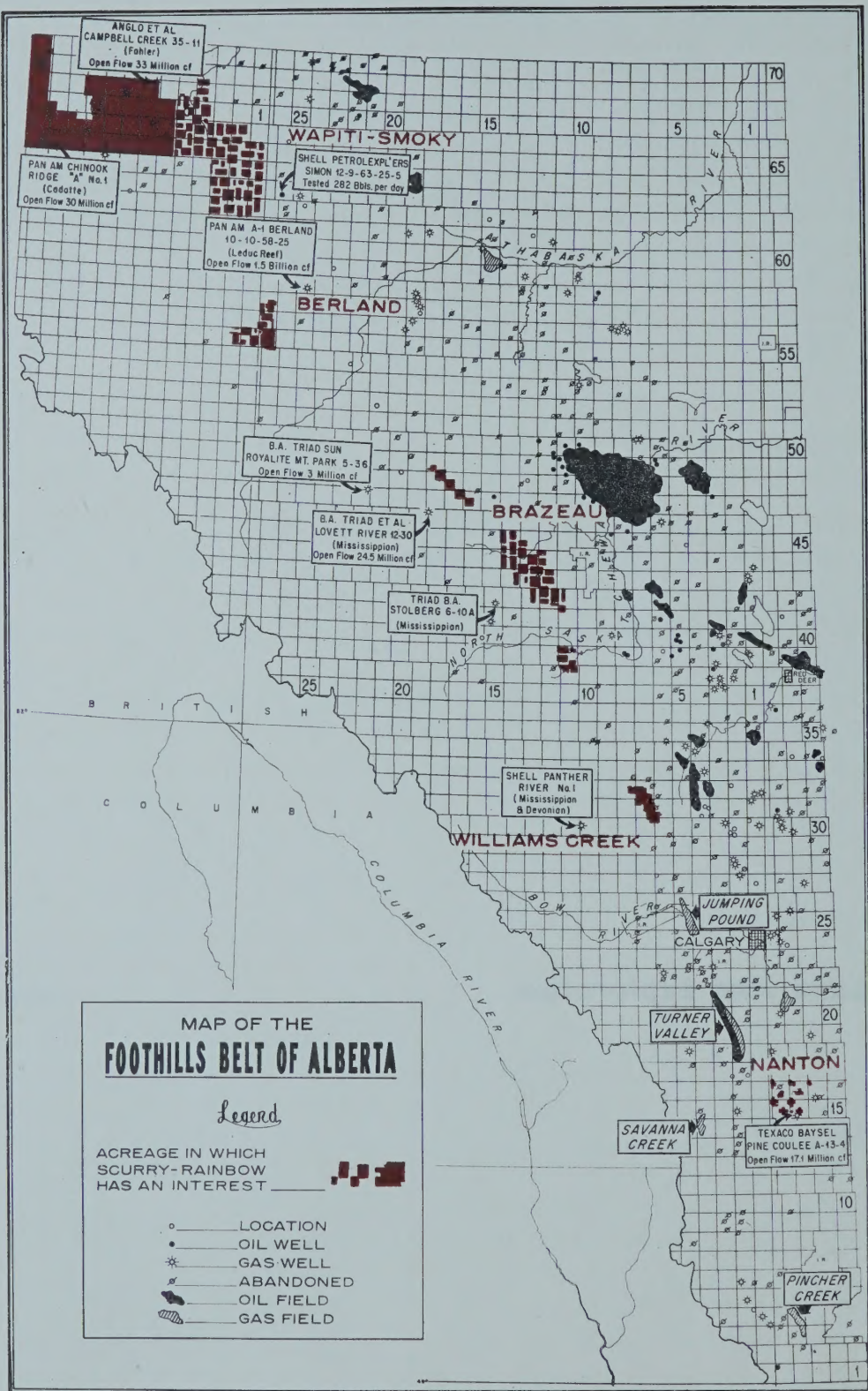
Scurry-Rainbow's large diversified mineral title and royalty spread in Saskatchewan, Alberta and British Columbia continued to be developed at a high rate during the year. A total of 57 oil wells were completed in southeastern Saskatchewan on acreage in which Scurry-Rainbow and its affiliated companies hold royalty interests up to 7½%. The Company's share of oil reserves on these wells have been calculated at 835,000 barrels for which the Company is not required to contribute any development or operating expenses. Two additional wells were completed as commercial oil producers but have since been abandoned. Scurry-Rainbow and its affiliates have an interest in 243 oil wells in Saskatchewan as of September 30, 1958.

Eighteen oil wells and one gas well were drilled on Scurry-Rainbow royalty acreage in Alberta during the year. Eleven oil wells were drilled in the Innisfail field, 6 in the Joffre field, one in the Bentley field and one gas well was completed in the Sylvan Lake area.

Two successful oil wells were drilled and completed in the Mississippian limestone, by the French Petroleum Company of Canada Ltd. and its associates, on Scurry-Rainbow acreage situated in the Harmattan-Elkton field of Alberta. Each well initially tested at the rate of 200 barrels of oil per day. Scurry-Rainbow retains 30% of the production until recovery of development costs at which time the interest increases to 50%. In the Redwater field, Scurry et al Redwater 1-33 was drilled and completed in the D-3 reef. The Company receives a 50% interest in production until 200% of the drilling costs have been recovered and then the interest reverts to 25%. The indicated recoverable gross reserves were 138,000 barrels with an initial production test indicating a potential in excess of 100 barrels of oil per day.

Gas

Land And Exploration



In the Foothills belt of Alberta which contains the bulk of Alberta's known natural gas reserves, Scurry-Rainbow holds an interest in several blocks of petroleum and natural gas leases. This year the Company increased its interest from 47.36% to 87.36% in 18,875 acres of petroleum and natural gas leases in the Williams Creek area located 10 miles northwest of the Jumping Pound gas field. In addition, the Company acquired a 94.74% interest in an 11,360-acre drilling reservation surrounding the petroleum and natural gas leases. The enormous reserves that have been established by wells recently drilled in the foothills belt make this acreage very attractive for further exploration. A map of this area is shown on the opposite page.

During April, 1958, Scurry-Rainbow also acquired a 66 2/3% interest in a 6,560-acre drilling reservation in the Lomond area of Alberta located 80 miles southeast of Calgary. This reservation was subsequently farmed out to Cree Oil of Canada Limited. Cree will drill a well to a depth sufficient to test the Jefferson formation to earn a 50% interest in the reservation and certain other lands owned by Scurry-Rainbow in the same area.

A farmout has been made in the Etzikom area of southern Alberta whereby Scurry-Rainbow will participate in the drilling of two wells to earn a 25% interest in approximately 40,000 acres of petroleum and natural gas leases.

A summary of the Company's land holdings is set out on the following page of this report. Despite the large increase in acreage holdings, carrying costs have been maintained at a minimum. With varying interests in over 11,000,000 gross acres, land rentals total only \$212,000 per year.

Exploratory drilling activity on Scurry-Rainbow acreage during the past year has been the most intensive in the Company's history. A total of 23 exploratory wells were commenced on acreage in Alberta and British Columbia in which Scurry-Rainbow has a carried or working interest. Scurry-Rainbow paid its proportionate share of the drilling costs on 4 of these wells and 19 wells were drilled at no cost to the Company. Of these 23 wells, one well is currently drilling, 3 were completed as commercial gas discoveries and the remainder were abandoned.

In the Murray River area of northeastern British Columbia, approximately 40 miles southwest of Dawson Creek, Scurry-Rainbow is participating with the Phillips Petroleum-West Canadian group in the drilling of a 14,750-foot Mississippian test. The well, Puggins #1, located on a 1,000,000-acre block in which Scurry-Rainbow holds a 10% working interest, commenced drilling in January, 1958 and was drilling below 11,600 feet in the Triassic on September 30, 1958. Gas shows have been encountered in the Triassic.

SCURRY-RAINBOW OIL LIMITED AND SUBSIDIARY COMPANIES
SUMMARY OF ACREAGE

Scurry-Rainbow Oil Limited And Subsidiary Companies

*Consolidated Statement Of Profit And Loss
For The Year Ended September 30, 1958*

Scurry-Rainbow Oil Limited

Consolidated Balance Sheet

(with comparative

(Canadian

ASSETS

	1958	1957
CURRENT ASSETS:		
Cash	\$ 1,384,779	\$ 1,741,926
Accounts receivable	365,513	352,975
Trust funds receivable	239,038	116,290
Inventories -		
Crude oil, at market	13,097	19,373
Materials and supplies, at cost	161,408	190,054
Prepaid expenses	4,777	11,557
	<u>\$ 2,168,612</u>	<u>\$ 2,432,175</u>
OTHER ASSETS:		
Reservation and drilling deposits	\$ 113,965	\$ 149,782
Mineral taxes recoverable and miscellaneous advances	86,140	79,364
Shares of a subsidiary company not consolidated	10,000	10,000
Miscellaneous securities, at cost	189,664	172,563
	<u>\$ 399,769</u>	<u>\$ 411,709</u>
CAPITAL ASSETS, at cost: (Note 1)		
Petroleum and natural gas and other mineral interests -		
Producing royalty interests	\$ 268,016	\$ 197,759
Producing wells and related lease costs	6,279,254	5,977,704
Less - Accumulated depletion	(2,740,874)	(2,285,518)
Capped gas wells and related lease costs	316,295	188,847
Non-producing properties	11,758,693	11,465,417
Mining claims, non-producing	736,982	705,680
Production and other equipment	1,565,943	1,389,914
Less - Accumulated depreciation	(765,825)	(601,291)
	<u>\$17,418,484</u>	<u>\$17,038,512</u>
DEFERRED CHARGES:		
Organization and original share issue expense	\$ 180,803	\$ 180,803
Unamortized debenture discount and expense	60,363	70,419
Other	74,494	77,332
	<u>\$ 315,660</u>	<u>\$ 328,554</u>
APPROVED ON BEHALF OF THE BOARD:		
THOMAS H. JONES, Director		
JOHN ELLIS, Director		
	<u>\$20,302,525</u>	<u>\$20,210,950</u>

And Subsidiary Companies

t September 30, 1958

gures for 1957)

ollars)

LIABILITIES

CURRENT LIABILITIES:	1958	1957
Accounts payable	\$ 351,539	\$ 465,118
Interest	32,007	34,316
Taxes	59,928	54,318
Current instalments of long term debt	642,350	681,494
	<u>\$ 1,085,824</u>	<u>\$ 1,235,246</u>
LONG TERM DEBT: (Note 2)		
Canadian bank loan at current rate of interest (secured), of which \$250,000 is payable before October 1, 1959	\$ 500,004	\$ 750,000
5½% United States bank loan (secured), the 1958 loan being repayable in 20 monthly instalments of U.S. \$40,000 commencing April 30, 1959 with a final pay- ment of U.S. \$700,000 due December 31, 1960 (U.S. \$1,500,000)	1,452,187	1,206,640
Non-interest bearing debt of a subsidiary, not due before January 1, 1960	86,706	98,108
5% Sinking Fund Debentures of Scurry Oils Limited due September 15, 1964 with minimum sinking fund pay- ments of \$160,000 due September 15 annually	1,040,000	1,200,000
	<u>\$ 3,078,897</u>	<u>\$ 3,254,748</u>
Less - Amounts due within one year included in current liabilities	642,350	681,494
	<u>\$ 2,436,547</u>	<u>\$ 2,573,254</u>
MINORITY SHAREHOLDERS' INTERESTS		
in subsidiary companies	\$ 194,300	\$ 179,664
SHAREHOLDERS' OWNERSHIP:		
Share capital - (Note 3)		
Authorized - 25,000,000 shares of a par value of 50 cents each		
Issued - 13,368,633 shares	\$ 6,684,317	\$ 6,677,206
Capital surplus (Note 3)	10,184,483	10,181,659
Deficit (as reduced by current year's profit), per state- ment attached	(282,946)	(636,079)
	<u>\$16,585,854</u>	<u>\$16,222,786</u>
LITIGATION AND COMMITMENTS (Note 4)		
	<u>\$20,302,525</u>	<u>\$20,210,950</u>

The Auditors' Report is attached to this Balance Sheet

Scurry-Rainbow Oil Limited And Subsidiary Companies

Consolidated Statement Of Deficit For The Year Ended September 30, 1958

(Canadian Dollars)

Deficit at September 30, 1957	\$636,079
Adjustment on acquisition of additional shares of Scurry Oils Limited	405
	<hr/>
	\$635,674
Net profit for the year ended September 30, 1958	352,728
	<hr/>
Deficit at September 30, 1958	\$282,946
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Notes To Financial Statements

1. CAPITAL ASSETS:

It is the policy of the companies to capitalize geological and geophysical expenses and lease rentals and other carrying charges as costs of the properties to which they relate.

2. CERTAIN CONDITIONS OF LONG TERM DEBT:

The Canadian bank loan is secured by an assignment of production from certain properties. The United States bank loan is secured by the deposit of shares of a subsidiary company.

Under the terms of the United States bank loan the prior consent of the bank is required to relieve the Company and its subsidiaries of certain restrictions on borrowing and the obligation to maintain consolidated net current assets at not less than \$1,000,000.

In certain circumstances Scurry Oils Limited is prohibited by its debenture trust deed from declaring or paying dividends.

3. SHARE CAPITAL, SHARE OPTIONS AND CAPITAL SURPLUS:

Changes in issued share capital and capital surplus during the year ended September 30, 1958 are summarized below:

	Number of shares	Share capital (par value)	Capital surplus
Balance at September 30, 1957	13,354,411	\$ 6,677,206	\$10,181,659
Add -			
Issued for cash under options of officers and employees	1,700	850	1,790
Issued in exchange for additional shares of subsidiary companies -			
Scurry Oils Limited	11,628	5,814	(134)
Williams Creek Exploration Ltd.	415	208	569
Landowners Mutual Minerals Ltd.	479	239	599
	<hr/>	<hr/>	<hr/>
Balance at September 30, 1958	13,368,633	\$ 6,684,317	\$10,184,483
	<hr/>	<hr/>	<hr/>

The consolidated capital surplus consists principally of the excess of the share capital and paid-in surpluses of companies amalgamated with Scurry-Rainbow through share exchanges over the par value of the Scurry-Rainbow shares issued in exchange, and the premium on shares issued for cash.

Options are outstanding at September 30, 1958 with certain officers and employees to purchase 559,800 shares of the Company's capital at prices of \$1.45, \$1.70, \$2.15 and \$2.75 per share.

117,200 shares are also reserved against the Company's contingent obligation to issue fully paid shares in exchange for the transfer to the Company of certain designated mineral properties.

4. LITIGATION AND COMMITMENTS:

The Company's title to certain mining claims has been disputed and the case is being carried through the Courts. Payment of \$25,000 has been made on account of the purchase price of the claims in dispute and this amount is included in mining claims on the balance sheet; the balance of the purchase price, namely \$175,000, has not been recorded pending disposition of the case.

Some lawsuits have developed involving the effectiveness of the companies' title to certain parcels of mineral and royalty interests in Saskatchewan. In view of this litigation, the number of adverse claims asserted with respect to parcels not yet involved in litigation (and the similar litigation involving other companies and other holders of large blocks of acreage in the Saskatchewan area), additional litigation may ensue. After careful consideration, and based upon the advice of counsel, the managements of the companies intend to carry out an aggressive policy of opposing all such litigation and to take such steps as may be deemed proper and necessary to protect the companies' interests. The management of Scurry-Rainbow does not anticipate that the current or prospective litigation will result in a material reduction of the interests referred to.

Auditors' Report

To the Shareholders of

SCURRY-RAINBOW OIL LIMITED:

We have examined the consolidated balance sheet of Scurry-Rainbow Oil Limited and subsidiary companies as at September 30, 1958 and the consolidated statements of profit and loss and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination, which included the accounts of the Company and all but one of the subsidiary companies consolidated, was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The accounts of the subsidiary company which were not examined by us have been included in the consolidated financial statements in reliance upon the opinion of other Chartered Accountants who are the auditors of that company.

In our opinion, based upon our examination and the report of the auditors of the subsidiary company whose accounts we did not examine, the accompanying consolidated balance sheet and consolidated statements of profit and loss and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the combined companies as at September 30, 1958 and the consolidated results of operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies and in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.

Chartered Accountants

Calgary, Alberta.

December 10, 1958.

